

4 October 2024

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West Victoria 8007
Australia

Dear Dr Kendall

ACAG response to Exposure Draft 331 Climate-related and Other Uncertainties in the Financial Statements (Proposed illustrative examples)

On behalf of the Australasian Council of Auditors-General (ACAG/we/our), thank you for the opportunity to comment on AASB Exposure Draft ED 331 *Climate-related and Other Uncertainties in the Financial Statements (Proposed illustrative examples)* (ED). The views expressed in this submission represent those of all Australian members of ACAG, unless specifically identified.

The attachment to this letter addresses the AASB's specific matters for comment outlined in the ED. Also attached is ACAG's response to the International Accounting Standards Board (IASB) Exposure Draft ED/2024/6 *Climate-related and Other Uncertainties in the Financial Statements (Proposed illustrative examples)*.

Overarching feedback

- ACAG agrees with the IASB's proposal to provide eight examples illustrating how entities can apply the requirements of IFRS Accounting Standards to report the effects of climate-related and other uncertainties in their financial statements. Example of the disclosures would make this more valuable.
- ACAG agrees with the IASB's proposal to include the examples as illustrative examples accompanying IFRS Accounting Standards, rather than publishing them as educational materials or incorporating them directly into the Standards. This approach is consistent with previous practices. However, we are uncertain whether the non-mandatory nature of these examples will be effective in resolving disclosure disputes.
- Illustrative examples may lead to disagreements between auditors and preparers, especially when preparers are unwilling to disclose certain information. We recommend that the AASB reiterate the expectations and objectives of these examples to minimise disputes between specific and general requirements, particularly to address potential contention over the precedence of general requirements when specific disclosures are not mandated. Clear guidance from the AASB could help reconcile these differences.
- ACAG broadly agrees with the approach taken by the IASB (to developing the examples, selection of requirements and fact patterns illustrated, and the technical content of the examples). Given the IASB primarily sets standards in relation to for-profit private sector entities, there is naturally insufficient consideration reflected in the examples to represent the circumstances of public sector entities. We therefore recommend the AASB to provide guidance that may be more relevant for public sector entities along with example disclosures as mentioned above.
- ACAG notes that the proposal highlights the complexities and challenges of understanding the impacts of climate-related risks on the financial statements and providing assurance on both climate-related disclosures under IFRS S2 and financial statements under IFRS Accounting Standards simultaneously. The profession will need significant learning and upskilling to effectively manage these challenges.

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- ACAG believes the proposals could improve the usefulness of financial statements by providing a framework and examples for disclosing the effects of climate-related risks, but their effectiveness will depend on consistent application, addressing practical challenges, and reassessing the examples after the first year of use.

Once again, thank you for the opportunity to comment on this Exposure Draft. I hope you will find ACAG's comments helpful as you move to progress the new standards.

Yours sincerely

A handwritten signature in dark ink, appearing to read "M. L. Harris", with a horizontal line drawn underneath it.

Michael Harris

Chair

ACAG Financial Reporting and Accounting Committee

AASB SPECIFIC MATTERS FOR COMMENT**Specific Matter for Comment 1**

Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- (a) not-for-profit entities; and
- (b) public sector entities, including GAAP/GFS implications?

The majority of ACAG jurisdictions do not anticipate regulatory issues. However, we note that two key considerations are relevance of examples and the ability to achieve consistent application by preparers.

Illustrative examples

ACAG considers there has been insufficient consideration reflected in the examples to represent the circumstances of not-for-profit public sector entities. It would be useful for the AASB to prepare examples that are relevant to the public sector acknowledging the lack of maturity in climate-related reporting in the public sector and the extensive interests of users of the reports.

Governments are frequently the provider of capital intensive and emission intensive services such as energy generation, transport infrastructure and healthcare related services (prevention such as water and wastewater treatment through to hospital care). However, the examples do not consider the information needs of users of government general purpose financial reports.

The current illustrative examples where the fact patterns relate to an entity in a capital-intensive industry, has greenhouse gas emission or high exposure to climate-related transition risk (examples 1, 3 and 4) relate mainly to for-profit entities who perform impairment testing of assets under IAS 36 giving consideration to cash-generating units. It would be valuable to include public sector examples, such as addressing fair value determination and impacts on useful life estimates.

Given that the majority of not-for-profit public sector entities' infrastructure is used for service delivery and measured at fair value (current replacement cost), the technical illustrations which reference to impairment testing for CGUs are likely not very helpful for preparers of financial statements of not-for-profit public sector entities in determining whether the entity's transition plans have any effect on the recognition or measurement of assets and liabilities, and related income and expenses. This is expected to be of relevance, given that various levels of government have, and will continue to, establish climate transition plans. We recommend including an additional illustrative example to reflect the fact patterns of a not-for-profit public sector entity.

It was also noted that the example illustrating the effects of climate-related risks on credit risks disclosed under AASB 7 may have limited application to statutory receivables in the public sector, since these are excluded from the scope of AASB 7.

Consistent application of the illustrative examples

The effective take-up and consistent application of the principles in this ED for the public sector (including for consolidation at whole-of-government) is contingent on the maturing of climate reporting and climate assurance across the public sector. For this reason, there will possibly be a period where there is widespread inconsistent application of the proposed principles into financial statements of the public sector (and potentially more broadly across the Australian environment). This may create expectation gaps by users of financial statements, that may warrant further consideration by the AASB.

The illustrative examples are non-mandatory, less known than the related accounting standards and often excluded from them, requiring separate access. Preparers have previously shown a lack of regard to illustrative example requirements, posing a challenge to auditors to ensure the intent is complied with.

Specific Matter for Comment 2

Will the proposals create any auditing or assurance challenges?

The illustrative examples highlight the complexity and challenges for the auditor in understanding the impacts of climate-related risks. These challenges may lead to operational issues for undertaking an audit or assurance engagement.

Engagement leaders will need to carefully consider their planning approach and outcomes to ensure an efficient audit. The AASB and AUASB equally could assist industry and the profession by providing more guidance and support for preparers in how to provide evidence to support their disclosures; and for auditors with planning and executing an audit. For example:

- how to address differences in time horizons used for information disclosed in climate reporting and the financial statements identifying climate-related judgements and assumptions that should be reflected in the financial statements including disclosures
- explaining/illustrating potentially valid differences between assumptions used for climate scenario analysis and those for financial reporting
- known interactions and dependencies between auditing standards used to audit the financial statements, and the auditing standard used to assure climate reporting
- understanding the relationship and interaction between teams performing the financial statements audit, and climate-related audit/assurance (where they are not the same), so that the nature, extent and timing of planned interactions can be considered and arranged during the planning phase of the audit
- guidance for situations where climate-related information and/or transition plan published by the entity within the annual report are boilerplate, or not sufficiently specific, to have a demonstrable link to the financial statements.

The intended synergy and alignment between climate-related risks and opportunities disclosures and the financial statements disclosures is clear. However, the skill set to prepare the information and disclosures, and audit them is not yet mature. This creates risks for audit practitioners in accessing the right skill sets at the right time.

Specific Matter for Comment 3

Whether overall, the proposals would result in financial statements that would be useful to users.

Notwithstanding our feedback to *specific matter for comment 1* and *2*, ACAG considers the proposals have the potential to enhance the usefulness of financial statements for users by providing a solid framework and illustrative examples that can guide preparers and auditors in disclosing the effects of climate-related uncertainties in the financial statements. The usefulness of these examples will depend on their consistent application by preparers and auditors, as well as addressing any practical challenges that arise during implementation. It may be necessary to reassess and update these examples after the first year of application to ensure they remain relevant and effective.

The examples are valuable in provoking consideration of disclosure requirements that may not be immediately apparent, especially in jurisdictions or contexts where reporting on these matters is still developing. While these examples could encourage better disclosure practices, their impact will vary depending on how widely they are adopted, given that they are not mandated for all. A review after their application will help assess their practical effectiveness in enhancing the usefulness of financial statements.

Specific Matter for Comment 4

Whether the proposals are in the best interest of the Australian Economy

ACAG is not able to comment on whether the proposals are in the best interests of the Australian economy.

Specific Matter for Comment 5

Unless already provided in response to specific matters for comment 1-4 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements?

ACAG cannot comment specifically on expected specific costs and benefits from the proposals. Although the examples do not prescribe additional requirements, they do highlight the increased considerations and therefore work effort required by preparers in producing climate-related disclosures and auditors to provide assurance.

4 October 2024

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Dear Andreas

**ED/2024/6 Climate-related and Other Uncertainties in the Financial Statements
(Proposed illustrative examples)**

On behalf of the Australasian Council of Auditors-General (ACAG/we/our), thank you for the opportunity to comment on ED/2024/6 Climate-related and Other Uncertainties in the Financial Statements (Proposed illustrative examples). ACAG is an association established over 60 years ago. It facilitates the sharing of information and intelligence between Auditors-General in a time of increasing complexity and rapid change. ACAG members are the Auditors-General of all Australian States and Territories, as well as the Australian, New Zealand, Fiji and Papua New Guinea Auditors-General. The views expressed in this submission represent those of all Australian members of ACAG only, unless specifically identified.

The attachment to this letter addresses the Board's questions for respondents within the ED.

Overarching feedback

- ACAG agrees with the IASB's proposal to provide examples discussing how entities can apply the requirements of IFRS Accounting Standards to report the effects of climate-related and other uncertainties in their financial statements. Examples illustrating the disclosures would make this more valuable.
- ACAG agrees with the IASB's proposal to include the examples as accompanying IFRS Accounting Standards, rather than publishing them as educational materials or incorporating them directly into the Standards. This approach is consistent with previous practices. However, we are uncertain whether the non-mandatory nature of these examples will be effective in resolving disclosure disputes.
- illustrative examples may lead to disagreements between auditors and preparers, especially when preparers are unwilling to disclose certain information. We recommend that the IASB reiterate the expectations and objectives of these examples to minimise disputes between specific and general requirements, particularly to address potential contention over the precedence of general requirements when specific disclosures are not mandated. Clear guidance from the IASB could help reconcile these differences.
- ACAG broadly agrees with the approach taken by the IASB (to developing the examples, selection of requirements and fact patterns illustrated, and the technical content of the examples). However, there is insufficient consideration of different accounting policy choices available to entities. This may limit relevance or result in divergent practices.

Once again, thank you for the opportunity to comment on this important change. I hope you will find ACAG's comments helpful as you move to progress the new standards.

Yours sincerely



Michael Harris

Chair

ACAG Financial Reporting and Accounting Committee

Questions for respondents

Question 1 – Providing illustrative examples

The IASB is proposing to provide eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The IASB expects the examples will help to improve the reporting of these effects in the financial statements, including by helping to strengthen connections between an entity's general purpose financial reports.

Paragraphs BC1–BC9 of the Basis for Conclusions further explain the IASB's rationale for this proposal.

- a) Do you agree that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements?

Why or why not? If you disagree, please explain what you would suggest instead and why.

ACAG supports the inclusion of illustrative examples to clarify the application of the Standard's requirements. These examples can help eliminate ambiguity around how climate-related matters should be considered and reported, thereby promoting consistency across services and various reports, and ensuring compliance with disclosure requirements.

However, ACAG suggests that the examples could be further enhanced by including specific example disclosures that demonstrate the appropriate level of information to be presented in financial statements. It would also be valuable if some of these examples were tailored to addressing where different accounting policy choices are permitted within the accounting standards. For example, different applications of the market approach and cost approach to fair value measurement.

Question 1 – Providing illustrative examples

The IASB is proposing to include the examples as illustrative examples accompanying IFRS Accounting Standards instead of publishing them as educational materials or including them in the Standards. Paragraphs BC43–BC45 of the Basis for Conclusions further explain the IASB's rationale for this proposal.

- b) Do you agree with including the examples as illustrative examples accompanying IFRS Accounting Standards?

Why or why not? If you disagree, please explain what you would suggest instead and why.

ACAG agrees with the proposal of illustrative examples accompanying the IFRS Accounting Standards instead of publishing them as educational materials or including them in the standard itself.

This approach aligns with current practices and facilitates easier updates and amendments to examples as requirements develop without needing lengthy exposure and approval times. Having the examples only in educational materials may increase the difficulty for preparers of financial statements finding this useful and relevant information to help with their application of the standard.

There is a risk that non-technical professionals, who typically rely on what is included in the individual standards and their appendices, may be unaware of the existence of these illustrative examples.

Even though the regulators have highlighted the requirements of IAS 1 paragraph 125 and failures by companies to comply with the paragraph, we are sceptical whether the non-mandatory nature of these examples will assist in disclosure disputes. We expect difficulty in auditors being able to require disclosure if they think that disclosure should be made, but the client preparer refuses to make the disclosure.

Question 2 – Approach to developing illustrative examples

Examples 1–8 in this Exposure Draft illustrate how an entity applies specific requirements in IFRS Accounting Standards. The IASB decided to focus the examples on requirements:

- a) that are among the most relevant for reporting the effects of climate-related and other uncertainties in the financial statements; and
- b) that are likely to address the concerns that information about the effects of climate-related risks in the financial statements is insufficient or appears to be inconsistent with information provided in general purpose financial reports outside the financial statements.

Paragraphs BC10–BC42 of the Basis for Conclusions further explain the IASB's overall considerations in developing the examples and the objective and rationale for each example.

Do you agree with the IASB's approach to developing the examples? In particular, do you agree with the selection of requirements and fact patterns illustrated in the examples and the technical content of the examples?

Please explain why or why not. If you disagree, please explain what you would suggest instead and why

ACAG broadly agrees that the illustrative examples are a valuable starting point and cover key areas where climate-related risks and opportunities are likely to impact amounts reported in the financial statements, particularly in relation to judgements and estimates.

However, ACAG recommends that these examples be continuously refined and updated with additional guidance as reporting practices evolve and new challenges in reporting emerge, especially as more jurisdictions and entities establish and publicise their climate commitments.

Question 3 – Other Comments

Do you have any other comments on the exposure draft?

Based on its observations of the illustrative examples, ACAG offers the following recommendations.

Common themes

- Governments are frequently the provider of capital intensive and emission intensive services such as energy generation, transport infrastructure and healthcare related services (prevention such as water and waste water treatment through to hospital care).

The examples do not consider the information needs of users of government general purpose financial reports where the audience may be broader and have more diverse interests than a corporate investor.

It would be beneficial for the IASB to monitor emerging reporting issues, particularly inconsistencies between climate information and financial statements.

- The illustrative examples suggest that the IFRS Sustainability Disclosure Standards permit entities to include information by cross-referencing to other reports. In contrast, IFRS Accounting Standards generally do not allow cross-referencing to other reports unless specifically permitted by a particular standard, such as IFRS 7.

To better understand the application of cross-referencing within the standards, would the IASB clarify the following:

- Is the allowance for cross-referencing in IFRS 7 an isolated situation, applicable only due to its specific provisions OR
- Does IFRS 7 establish a general principle that permits cross-referencing across other IFRS Accounting Standards?

- Estimates and judgements are used in climate-related scenario analysis, and in general purpose financial statements. It may be useful to expand the illustrative examples to demonstrate situations where there may be legitimate and valid differences between assumptions used for scenario analysis in climate reporting and assumptions used in the financial statements and how these differences should be disclosed by preparers of the financial statements. An example is Note 1 in Glencore's 2022-23 annual report (available [here](#)) and the independent audit report. Note 1 is an extensive discussion which is summarised by Glencore's independent auditor in the audit report as:

IFRS requires the Group's financial reporting to be based, amongst other things, on the Group's best estimate of assumptions that are reasonable and supportable as at the date of reporting. Those assumptions may not align with the ways in which the global economy, society and government policies will need to change to meet the targets set out in the International Energy Agency's (IEA) Net Zero Emission scenario or the Group's stated ambitions.
- Glencore's coal pricing assumptions used (which differ from the IEA's pricing assumptions under the respective scenarios) to assess its coal non-current assets for indicators of impairment or impairment reversals and, where such indicators existed, the valuation of the coal non-current assets;

Examples 1 and 2

- A majority of offices agree that these examples are appropriate as illustrative examples as they illustrate the application of specific paragraphs of individual standards.
- A minority of offices believe that Examples 1 and 2 seem to fit better with the Materiality Practice Statement.
- It is not clear for each illustrative example, whether entities in each fact pattern apply IFRS Sustainability Disclosure Standards. We therefore suggest that the additional information in paragraph BC32 which states that it is assumed in Examples 1 and 2 that the entity does not apply IFRS Sustainability Disclosures is disclosed as an assumption within Examples 1 and 2. It would also be useful to explain the outcomes and what if anything may differ if the entity did apply IFRS Sustainability Disclosure Standards.

Example 3

- We expect arrangements to offset GHG emissions (such as carbon credits and emission allowance costs, which are mentioned, but not deliberated on) to become more common in the near future due to government commitments to reduce carbon emissions by specific deadlines. The IFRIC's Agenda Decision on "Climate-related Commitments" (April 2024), which considers these offset arrangements, has been referred to in paragraph BC37 but not in Illustrative Example 3. We recommend the IASB include a direct reference to the Agenda Decision in Illustrative Example 3.

Example 4

- IAS 36 does not require an entity to disclose information about the assumptions used in determining a cash-generating unit's (CGU's) recoverable amount if the CGU includes no goodwill or intangible assets with indefinite lives and the entity recognised no impairment loss for that CGU during the period. However, in example 4, the entity decides to make additional disclosures as per the requirements of IAS 1. In this example, the general requirements seem to take precedence over the specific requirements of the standard and we anticipate challenges in getting preparers to make disclosures in such cases (given the requirements of IAS 8 paragraph 7). Therefore, we recommend the IASB reiterate expectations and objectives of these examples, so there are less disputes when assessing specific requirements vs general requirements.

Example 5

- Disclosure of assumptions: additional disclosures (IAS 1/IFRS 18). The assumption in the example is for no write down of the deferred tax asset based on the assumption that recovery of the tax losses is expected before the legislation is effective. We suggest that an additional scenario be included, for the situation that there is a likelihood of a write-down if the legislation becomes effective before the expected recovery of the tax losses.

Example 6

- Disclosure about credit risk (IFRS 7): We agree that climate-related information is likely to be relevant to users, given the current focus and media reporting on climate change on the agriculture sector and low-lying areas. The example needs to be expanded to specifically disclose why climate-related risks may be material or not.

For example, if the loans have short-term remaining maturities (say 2 to 5 years), then the effect of climate-related risks would not be expected to result in any significant change to the current variations in weather or sea levels in the immediate future and over the maturity of the loans. If the loans have long-term maturities, say 20 to 30 years, then there may be more variations expected than over 2 to 5 years. However, the disclosure instead should be based on reality. That is, that there is not expected to be any significant change to the current variations in weather or sea levels in the immediate future and over the maturity of the loans (say, mostly in range of 2 to 5 years).

Example 7

- Disclosure about decommissioning and restoration provisions (IAS 37): We do not believe that the example of not recognising a decommissioning or restoration provision is common. We suggest that the example be redrafted to be more relatable. That is, that the expected payments may be required to be made earlier – potentially arising in a material change in the provision (already recognised).
- An additional example should be included requiring the discount rate for provisions to be disclosed. While IAS 1 requires the disclosure of other major sources of estimation uncertainty, in our experience, discount rates are not usually disclosed. This is partly because IAS 37 Provisions, Contingent Liabilities and Contingent Assets does not require the disclosure of the discount rate. However, the discount rate will often be material information. The disclosure of the discount rate is also material because there is often a misconception that allowing for increasing risk for a provision means increasing the discount rate (the approach used for assets), when the reality is that the discount rate should be decreased (leading to a higher liability). Also, a discount rate for provisions could be negative.

Example 8

- Disclosure of disaggregated information (IFRS 18): The example says to split PPE carrying values between high emissions and low emissions PPE. This seems to be the desired outcome.

The example is not clear why there is a mandated need to split these assets, but there is no requirement to split assets by other risks. There are many ways to split assets based on risks, including:

- assets involved in manufacturing in high vs low regulatory environments (e.g. food, drugs)
- assets in countries with dictatorships or authoritarian governments (and higher risk of nationalisation) than in democracies.

The example should be clear as to what is mandated (must) compared to voluntarily providing additional information (might).

- In addition to being relevant to the application of IFRS 18, it should also be noted as relevant to the application of IAS 1, as discussed in paragraph BC42.